

Dr Reddy's Laboratories Ltd.

NYSE:RDY

Q1 FY10 Financial Performance Review

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Q1 FY10 IFRS

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Dr. Reddy's Laboratories Limited and Subsidiaries
Unaudited Condensed Consolidated Income Statement

Particulars	Index	Q1 FY10			Q1 FY09			Growth %
		(\$)	(Rs.)	%	(\$)	(Rs.)	%	
Revenue	A	381	18,189	100	315	15,038	100	21
Cost of revenues	B	168	8,017	44	158	7,544	50	6
Gross profit	C = A-B	213	10,172	56	157	7,494	50	36
Operating Expenses								
Selling, general & administrative expenses ^(a)	D	124	5,927	33	107	5,085	34	17
Research and development expenses, net	E	21	985	5	22	1,050	7	(6)
Write down of intangible assets	F	-	-	-	-	-	-	-
Write down of goodwill	G	-	-	-	-	-	-	-
Other (income)/expenses, net	H	(1)	(35)	(0)	5	241	2	-
Total Operating Expenses	I= D+E+F+G+H	144	6,877	38	134	6,376	42	8
Results from operating activities	J = C-I	69	3,295	18	23	1,118	7	195
Finance income ^(b)	K	(2)	(88)	(0)	(7)	(320)	(2)	(73)
Finance expenses ^(c)	L	5	223	1	5	243	2	(8)
Finance expenses, net	M = K+L	3	135	1	(2)	(77)	(1)	-
Share of profit/(loss) of equity accounted investees	N	0	11	0	-	-	-	-
Profit before income tax	O = J-M+N	66	3,171	17	25	1,195	8	165
Income tax expense	P	(15)	(726)	(4)	(2)	(84)	(1)	764
Profit for the period	Q = O+P	51	2,445	13	23	1,111	7	120
Attributable to :								
Equity holders of the company	R	51	2,445	13	23	1,111	7	120
Minority interest	S	-	-	-	-	-	-	-
Profit for the period	T = R+S	51	2,445	13	23	1,111	7	120
Weighted average no. of shares o/s	U		168.9			168.9		
Diluted EPS	V = R/U	0.3	14.5		0.1	6.6		

Notes:

- (a) Includes amortization charges of Rs. 507 million in Q1 FY10 and Rs. 377 million in Q1 FY09.
- (b) Includes forex gain of Rs. 176 million in Q1 FY09.
- (c) Includes forex loss of Rs. 84 million in Q1 FY10.

Key Balance Sheet Items

(in millions)

Particulars	As on 30 th June 09		As on 31 st Mar 09	
	(\$)	(Rs.)	(\$)	(Rs.)
Cash and cash equivalents	130	6,184	117	5,596
Trade and other receivables	280	13,374	306	14,592
Inventories	292	13,933	277	13,226
Property, plant and equipment	439	20,970	437	20,882
Goodwill and Other Intangible assets	456	21,768	465	22,179
Loans and borrowings (current & non current)	337	16,108	413	19,701
Trade accounts payable	144	6,873	125	5,987
Equity (including reserves)	939	44,832	881	42,045

Revenue Mix by Segment

(in millions)

	Q1 FY10 \$	Q1 FY10 INR	as a %	Q1 FY09 \$	Q1 FY09 INR	as a %	Growth %
Global Generics	273	13,020	72	215	10,287	68	27
North America	126	6,026	46	59	2,808	27	115
Europe	44	2,109	16	63	2,994	29	(30)
India	50	2,393	18	46	2,202	21	9
Russia & Other CIS	39	1,871	14	40	1,928	19	(3)
Others	13	621	5	7	355	3	75
PSAI (Pharmaceutical Services & Active Ingredients)	102	4,870	27	97	4,613	31	6
North America	21	995	20	23	1,085	24	(8)
Europe	29	1,371	28	23	1,080	23	27
India	13	629	13	15	722	16	(13)
Others	39	1,875	39	36	1,726	37	9
Proprietary Products & Others	6	300	2	3	138	1	118
Total	381	18,189	100	315	15,038	100	21

Revenue Mix by Geography

(in millions)

	Q1 FY10 \$	Q1 FY10 INR	as a %	Q1 FY09 \$	Q1 FY09 INR	as a %	Growth %
North America	150	7,182	39	83	3,957	26	82
Europe	76	3,619	20	87	4,147	28	(13)
India	63	3,021	17	61	2,924	19	3
Russia & Other CIS	39	1,871	10	40	1,928	13	(3)
Others	52	2,496	14	44	2,082	14	20
Total	381	18,189	100	315	15,038	100	21

Business Highlights

- o Overall revenues at Rs. 18.2 billion (\$381 million) in Q1 FY10 as against Rs. 15.0 billion (\$315 million) in Q1 FY09, representing a growth of 21%.
 - The growth was largely driven by sumatriptan.
 - Excluding revenues from sumatriptan, the YoY growth is at 7%, driven by the key markets of North America and India.
- o Operating income is at Rs. 3.3 billion (\$69 million) in Q1 FY10 as against Rs. 1.1 billion (\$23 million) in Q1 FY09.
- o EBITDA at Rs. 4.4 billion (\$91 million) in Q1 FY10 as against Rs. 2.3 billion (\$48 million) in Q1 FY09, representing a growth of 90%.
- o Revenues from Global Generics business at Rs. 13.0 billion (\$273 million) in Q1 FY10 as against Rs. 10.3 billion (\$215 million) in Q1 FY09. YoY growth of 27% driven by sumatriptan and key markets of North America and India.
- o Revenues from Pharmaceutical Services & Active Ingredients (PSAI) increase by 6% to Rs. 4.9 billion (\$102 million) in Q1 FY10 as against Rs. 4.6 billion (\$97 million) in Q1 FY09.
- o During the quarter, the company launched 24 new generic products, filed 22 new generic product registrations and filed 4 DMFs globally.

Global Generics

- o Revenues from Global Generics business at Rs. 13.0 billion (\$273 million) in Q1 FY10 as against Rs. 10.3 billion (\$215 million) in Q1 FY09. YoY growth of 27% driven by sumatriptan and key markets of North America and India.
- o Revenues from North America at Rs. 6.0 billion (\$126 million) in Q1 FY10 as against Rs. 2.8 billion (\$59 million) in Q1 FY09.
 - Excluding revenues from Sumatriptan, the growth of 42% in North America was driven by high volume growth across existing products.
 - The cumulative ANDA filings are 139. Total of 67 ANDAs pending at the USFDA addressing innovator sales of \$68 billion, of which 28 are Para IVs and 16 are FTFs.
- o Revenues from Europe at Rs. 2.1 billion (\$44 million) in Q1 FY10 as against Rs. 3.0 billion (\$63 million) in Q1 FY09, representing a degrowth of 30%.
 - Revenues from betapharm decrease by 36% to Rs. 1.6 billion (\$34 million) in Q1 FY10 from Rs. 2.5 billion (\$53 million) in Q1 FY09. This decrease was on account of the effect of destocking in the market.

- Supplies for AOK tender have commenced, with AOK products witnessing significant increase in volumes, while the volumes for non-AOK product have fallen.
- The sales force at betapharm was restructured to reduce to approximately 50 as of June 2009 from 110 as of March 2009.
- Revenues from Rest of Europe grew by 6% to Rs. 503 million (\$11 million) in Q1 FY10. The growth is largely contributed by UK with sales of Rs. 362 million (\$8 million) representing a growth of 23%.
- o Revenues from Russia & Other CIS markets at Rs. 1.9 billion (\$39 million) in Q1 FY10 as against Rs. 1.9 billion (\$40 million) in Q1 FY09, representing a degrowth of 3%.
 - Revenues in Russia remain at Rs. 1.5 billion (\$32 million) in Q1 FY10 as against Rs. 1.5 billion (\$31 million) in Q1 FY09; YoY growth of 2%. However in rouble terms, the growth is at 18% YoY and 5% sequentially.
 - Despite a degrowth in volumes, the secondary sales trend for April & May indicates a rouble growth of 46% vis-à-vis industry's growth of 34%.
 - Revenues in Other CIS markets decrease to Rs. 342 million (\$7 million) in Q1 FY10 as against Rs. 429 million (\$9 million) in Q1 FY09. YoY degrowth of 20%.
- o Revenues in India increase to Rs. 2.4 billion (\$50 million) in Q1 FY10 from Rs. 2.2 billion (\$46 million), representing a growth of 9% largely on account of key brands of Omez, Nise, Omez-DSR and Razo.
 - Sequential growth of 15% largely contributed by volume growth of 14%.
 - The secondary sales trend for April & May indicate a growth of 11.4% for Dr. Reddy's as against the industry growth of 10.4%.
 - 14 new products launched during the quarter.

Pharmaceutical Services and Active Ingredients

- o Revenues from Pharmaceutical Services & Active Ingredients (PSAI) increase by 6% to Rs. 4.9 billion (\$102 million) in Q1 FY10 as against Rs. 4.6 billion (\$97 million) in Q1 FY09; YoY growth of 6% driven by the regions of Europe and RoW as well as the benefit of rupee depreciation against the dollar.
 - Growth was driven by products of Gemcitabine, Montelukast, Sumatriptan and Levetiracetam.
 - The order book status of active ingredients as of June 2009 is up by 27% from March 2009.
 - During the quarter, 4 DMFs were filed globally, with 3 in Canada and 1 in RoW. The cumulative DMF filings till date are 355.

Income Statement Highlights:

- o Gross profit increase by 36% to Rs. 10.2 billion (\$213 million) in Q1 FY10 as against Rs. 7.5 billion (\$157 million) in Q1 FY09. Gross profit margins on total revenues at 56% as against 50% in Q1 FY09, largely driven by higher margins on sumatriptan.
- o Selling, General & Administration (SG&A) expenses increase to Rs. 5.9 billion (\$124 million) in Q1 FY10 from Rs. 5.1 billion (\$107 million) in Q1 FY09; YoY growth of 17%.
 - However excluding the exit costs of sales force at betapharm amounting to Euros 7.2 million and the costs related to closure of the Atlanta research facility amounting to \$1.5 million, the SG&A expenses grew by 6%.
- o Other operating income of Rs. 35 million in Q1 FY10 as against Other operating expenses of Rs. 242 million in Q1 FY09. The change is on account of :
 - Provision for damages of Rs. 515 million in Q1 FY09 on account of the German court upholding the validity of the olanzapine patent in Germany.
 - Benefit of negative goodwill of Rs. 150 million in Q1 FY09, relating to the acquisition of facilities from Dow Pharma.
- o R&D expenses are at Rs. 985 million in Q1 FY10.
- o Finance costs (net) are at Rs. 135 million in Q1 FY10 as against Finance income (net) at Rs. 77 million in Q1 FY09. The change is mainly on account of :
 - Net forex loss of Rs. 84 million in Q1 FY10 as against net forex gain of Rs. 176 million in Q1 FY09.
 - Net interest expense of Rs. 59 million in Q1 FY10 as against net interest expense of Rs. 174 million in Q1 FY09.
- o PAT at Rs. 2.4 billion (\$51 million) in Q1 FY10 as against Rs. 1.1 billion (\$23 million), representing a growth of 120%.
- o PAT adjusted for exceptions is at Rs. 2.8 billion (\$60 million) as against Rs. 1.3 billion (\$28 million) in Q1 FY09, representing a growth of 116%.
- o EPS of Rs. 14.4 (\$0.3) in Q1 FY10 as against Rs. 6.6 (\$0.1) in Q1 FY09.
- o Capital expenditure for Q1 FY10 is at Rs. 692 million (\$14 million).

Disclaimer

This note includes forward-looking statements, as defined in the U.S. Private Securities Litigation Reform Act of 1995. We have based these forward-looking statements on our current expectations and projections about future events. Such statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially. Such factors include, but are not limited to, changes in local and global economic conditions, our ability to successfully implement our strategy, the market acceptance of and demand for our products, our growth and expansion, technological change and our exposure to market risks. By their nature, these expectations and projections are only estimates and could be materially different from actual results in the future.

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